



30 June 2017

Ian Dempster  
Gas Industry Company  
PO Box 10646  
WELLINGTON

PO Box 17188  
Greenlane  
Auckland 1546  
New Zealand  
  
Genesis Energy Limited

Dear Ian

## Gas transmission access code – code transition

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Genesis Energy Limited (“Genesis Energy”) welcomes the opportunity to provide a submission to the Gas Industry Company (“GIC”) on First Gas’ information paper *Preliminary Draft Code Changes to Transition from VTC and MPOC to GTAC* dated June 2017 (“the paper”).

Genesis Energy has noted previously that we appreciate the collaborative process that First Gas and GIC have undertaken to-date in developing the new gas transmission access code (“GTAC”). We are pleased to see this continuing with engagement on the transition process proposed in the paper.

From here-on-in, we are of the view that engagement becomes even more crucial, as we approach the ‘pointy end’ of the development process and agree how to transition from two codes to one. Genesis Energy agrees with the three objectives identified by First Gas for an optimal transition process:

1. A seamless transfer: transition is instantaneous, with no gaps or exceptions in coverage and no overlap between competing requirements from different codes;
2. Certainty: provide reasonable certainty to all parties, including allowing sufficient time to implement new IT systems and processes;
3. Ability to influence: stakeholder comments on the GTAC will be taken seriously and addressed, but no single party should be able to hold the process to ransom.

However, we are concerned that the transition process as currently proposed does not meet any of these objectives and we are therefore unable to support it. That said, we do not want to undermine what has been a very collaborative process to this point so our comments and alternative solutions for consideration as outlined below offer productive and realistic challenges to your current thinking.

### **Substantive conditions: A more robust process is needed**

In our submission *Gas transmission access code – governance options* dated May 2017 (“May paper”), Genesis Energy considered a robust governance framework to be crucial to the success of

any GTAC. This same principled thinking applies to the governance of the code transition process, which currently sees the GIC as the sole decision maker.

Genesis Energy stated in the May paper:

“We are mindful that the concentration of too much power within one body is unwise and has the potential to create an environment where legal challenge becomes the only restraint on the decision-making powers. For this reason, it is our view that there must be checks and balances in place.”

We extend this reasoning to the current issue and suggest the following checks and balances:

- Code signatories vote on whether the GTAC should replace the existing codes;
- If a majority of code signatories vote in favour (75 per cent or more), the GTAC goes before the GIC to be assessed according to the requirements of the Gas Act and Government Policy Statement on Gas (“GPS”);
- If the GIC determines the GTAC is better than the status quo, it becomes binding subject to the procedural conditions being met.

We consider this three step process would meet the design objectives, particularly in respect of providing parties the ability to influence the outcome of the GTAC process. From our perspective, providing code signatories with the ability to vote, augmented by GIC review, better represents the interests of all transmission stakeholders.

Shippers and First Gas – who have ‘skin in the game’ and carry the costs and risks associated with operating on transmission system – have their interests protected via the voting process; while other transmission stakeholders - including major gas users - have their interests protected via the GIC review. We also note that GIC, if dissatisfied with the decision reached by a majority of shippers, has the opportunity to enforce a regulated solution wherever it sees fit.

Genesis Energy also recommends other safeguards regarding the role of GIC, including the Gas Act and GPS review to be undertaken by independent directors of the GIC board only, and development of guidance for the interpretation of the principles in section 43ZN of the Gas Act e.g. to determine how ‘efficient’ should be understood in s. 43ZN(a).

### **Procedural conditions: Condensed timeframes a growing concern**

Genesis Energy has previously commented on the indicative timeframes in respect of IT systems, particularly regarding First Gas issuing a statement of requirements and a request for purchase to vendors in August 2017.

While we support First Gas taking a proactive approach to IT system procurement, we are concerned that engaging with vendors too soon will limit due consideration of stakeholder feedback that will be received during the code review process, also scheduled for August 2017, which could impact on the required functionality of the IT system.

If First Gas needs to go back to vendors, or introduce a greater degree of customisation, then this could affect the timelines for IT system readiness, which will have a domino effect on other

timelines. This kind of slippage, in what is a very tightly condensed timeline leading up to 1 October 2018, is a real risk to the entire GTAC process.

We are also concerned that First Gas is providing insufficient time for shippers to prepare their own IT systems and processes. Allowing just two months before the proposed transition date for shippers to update and integrate their systems is unrealistic and unachievable, and could have serious implications for the security and robustness of shippers' systems.

Based on current information – which is very limited - Genesis Energy considers that six months' notice of a firm set of requirements is more feasible, which means we would expect First Gas could provide shippers with firm specifications in March 2018. This is consistent with the kind of lead times First Gas has provided itself (11 months) and more in line with what can reasonably be expected to carry out the design, implementation, testing and training that will be involved to integrate our existing system with First Gas' new off the shelf product.

### **The best way forward**

Genesis Energy is committed to working with First Gas, GIC and industry stakeholders to agree on a transition process to a GTAC that is materially better than the status quo.

We suggest First Gas and the GIC consider our submission and others in conjunction with the comments received at the workshop held 22 June; pausing to consider if there is a more robust process for determining whether substantive conditions have been met and if the timeline to meet procedural conditions is realistic. We note that some of the concerns we have raised are shared by other stakeholders.<sup>1</sup>

If agreement on a transition process cannot be reached, we think it would be pragmatic for First Gas to advance its contingency planning and communicate this clearly so we can all prepare for 'Plan B'.

If you would like to discuss any of these matters further, please contact me on 09 951 9272.

Yours sincerely



Margie McCrone  
Regulatory Advisor

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<sup>1</sup> Including Vector, Contact Energy and Greymouth Gas.